Week 2: context/industry analysis

Learning objectives:

- Understand the difference between a market and an industry
- Analyse the environmental factors affecting a market
- Assess the attractiveness of an industry using Porter's five competitive forces model
- Identify key success factors for an industry
- Recognise the dynamic nature of markets and industries

Market vs industry

- Individuals and organisations who are interested and willing to buy a good or service to obtain benefits that will satisfy a particular need or want and who have the resources to engage in such a transaction
    - Buyers
- Industry
    - A group of businesses that offer a product or class of products that are similar and are close substitutes for one another
        - Producers/sellers
- Macro environmental forces
    - External and uncontrollable factors that influence an organisation's decision making and affect its performance and strategies
    - Larger societal forces as apposed to actors close to the company
- PESTLE Model
    - Political
        - The factors that determine the extent to which a government may influence the economy or a certain industry
            - Governmental stability, political climate
            - Trade regulations, tariffs
            - Taxation/fiscal policy
    - Economic
        - The determinants of an economy's performance that directly impacts a company and have resonating long term effects
            - Interest rate, inflation rate
            - Recession
            - Trade deficits or surpluses, exchange rate
            - Growth in spending power, savings rates
            - Unemployment rate
    - Social
        - The factors that shape the social and cultural environment of the market
        - Demographics, population size, growth rate, age distribution
        - Trends in values, attitudes, lifestyle
    - Technological
        - Innovations in technology that may affect the operations of the industry and the market
            - Pace of technological development/change
            - E-commerce
            - Social media

    - Legal
        - Consumer law
        - Antitrust law
        - Advertising regulations
        - Labour laws, OHS
    - Environmental
        - Weather, climate, climate change
        - Water shortages
        - Waste disposal
        - Pollution monitoring
        - Energy consumption
- Porter's five forces model
    - How to use the model:
        - Identify different parties involves, along with the specific factors that bring about competitive pressures
        - Evaluate how strong the pressures stemming from each of the five forces are strong
        - Determine whether the five forces, overall, are supportive of high industry profitability
    - Rivalry among competing sellers
        - Rivalry increases and becomes a stronger force when
            - Buyer demand is growing slowly
            - Buyer costs to switch brands are low
            - The products of the industry members are commodities or else weakly differentiated
            - The firms in the industry have excess production capacity and/or inventory
            - The firms in the industry have high fixed costs or high storage costs
            - Competitors are numerous or are of roughly equal size and competitive strength
            - Rivals have diverse objectives, strategies and/or countries of origin
            - Rivals have emotional stakes in the business or face high exist barriers
                - Rivalry decrease and becomes a weaker force under the opposite conditions
    - Threat of new entrants
        - Threat of entry is a stranger force when incumbents are unlikely to make retaliatory moves against new entrants and entry barriers are low
        - Entry barriers are high and threat of entry is low when:
            - Incumbents have large cost advantages over potential entrants due to:
                - High economies of scale
                - Significant experience based cost advantages or learning curve effects
                - Other cost advantages
            - Customers have strong brand preference and/or loyalty to incumbent sellers

        - Patens and other forms of intellectual property protection are in place
        - There are strong network effect
        - Capital requirements are high
        - There is limited new access to distribution channels and shelf space
        - Government policies are restrictive
        - There are restrictive trade policies
- Threat of substitute
    - Competitive pressure from substitutes are stronger when
        - Good substitutes are readily available and attractively prices
        - Substitutes have comparable or better performance features
        - Buyers have lost costs in switching to other alternatives
        - Signs that competition from substitutes is strong
            - Sales of substitutes are growing faster than sales of the industry being analysed
            - Producers of substitutes are moving to add new capacity
            - Profits of the producers of substitutes are on the rise
- Power of suppliers
    - Supplier bargaining power is stronger when:
        - Suppliers' product and/or services are in short supply
        - Suppliers' products and/or services are differentiated
        - Industry members incur high costs in switching their purchases to alternative suppliers
        - The supplier industry is more concentrated than the industry it sells to and is dominated by a few large companies
        - Industry embers do not have the potential to integrate backward in order to self-manufacture their own inputs
        - Suppliers' products do not account for more than a small fraction of the total costs of the industry's products
        - There are no good substitutes for what the suppliers provide
        - Industry members do not account for a big fraction of suppliers' sales
- Power of buyers
    - Competitive pressures from buyers increase when they have strong bargaining power and are price sensitive
    - Buyer bargaining power is stronger when:
        - Buyer demand is weak in relation to industry supply
        - The industry's products are standardised or undifferentiated
        - Buyer costs of switching to competing products are low
        - Buyers are large and few in number relative to the number of industry sellers
        - Buyers pose a credible threat of integrating backward into the business of sellers
        - Buyers are well informed about the quality, prices, and costs of sellers
        - Buyers have the ability to postpone purchases
    - Buyers are price sensitive and increase competitive pressures when

        - Buyers earn low profits or low income
        - The product represents a significant fraction of their purchases
- Collective strength of the five forces
    - The strongest competitive forces determine the extent of the competitive pressure on industry profitability
        - Look to the strongest forces
    - An industry is attractive when the overall impact of the five forces is moderate to weak
        - Attractive for an average industry member
- Matching company strategy to competitive conditions
    - Working through the five forces model promotes strategic thinking about how to better match company strategy to the specific competitive character of the marketplace
        - Pursue avenues that shield the company from as many of the competitive pressures as possible
        - Initiate actions calculated to shift the competitive forces in the company's favour by altering the underlying factors driving the five forces
- Key success factors (KSFs)
    - Key success factors are the strategy elements, product and service attributes, operational approaches, resources, and competitive capabilities that are essential to surviving and thriving in the industry
        - All firms in the industry must pay close attention to them
        - Vary from industry to industry
        - Vary from time to time within the same industry
    - How to identify KSFs
        - Given the nature of competitive rivalry in the industry, what resources and capabilities must a company have to be competitively successful?
            - What shortcomings are most certain to put a company at a significant competitive disadvantage?
                - On what basis do buyers of the industry's product choose between the competing brands or sellers? What product attributes and service characteristics are crucial?
- Dynamic markets and industries
    - Common drivers of industry change
        - Changes in the long-term industry growth rate
        - Increasing globalisation
        - Emerging internet capabilities and applications
        - Changes in who buys the product and how they use it
        - Technological change and manufacturing process innovation
        - Product and marketing innovation
        - Entry or exist of major firms
        - Diffusion of technical know-how across companies and countries
        - Changes in cost and efficiency
        - Reduction in uncertainty and business risk
        - Regulatory influences and government policy changes
        - Changing societal concerns, attitudes and lifestyles
- Trend analysis
    - Uses market information to identify patterns

        - Eliminating noise and identifying non-stationary trends that are helpful for predicting future events
    - Collecting data over a greater length of time can make the estimates more accurate
- Scenario analysis
    - A complex tool used to model two or more probable outcomes
        - Best case/worst case are estimated